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1949 FREIGHT RATES TO STIMULATE LOCAL INDUSTRIES AND ENCOURAGE TRUCKING FOR SHORT HAULS

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A new schedule of freight rates went into effect in January 1949 replacing that which had been in force for the past 10 years, April 1939 - January 1949. The new rates are designed to cover railroad expenses on a system-wide basis and to provide certain profit accumulations. Formerly, the majority of large-tonnage freight rates for initial distances, i.e., 50 - 150 kilometers, were considerably lower than actual cost of shipping.

In the new schedule, all freight rates per kilometer-ton for such short distances are equal to the shipping cost. The only exceptions are coal and ore, for which the initial rates have been fixed a little below the cost level, although the trend of the reform was definitely toward narrowing the gap between rate and shipping cost. For distances of over 1,000 kilometers the new rates correspond to the shipping cost. For hauls exceeding 2,000 kilometers, the rate is higher than the cost. The new higher rates for short distances will not discourage development of local industries, since the rates on longer distances are fixed at cost.

The new initial rates are the same, or very only a little for most freight, the charge being independent of the value of the consignments. Thus, the same initial rate is set for freight of such diverse price and "paying capacity" as grain, brick, peat, salt, beets, and others. Exceptions to this are petroleum and other products whose shipping conditions are completely different, and consequently have different costs for the initial shipping operations. The rate for sugar has not been changed, although sugar price and "paying capacity" is many times higher than that of most other freight. The new rates for three categories of freight: (1) crude iron and steel, (2) rolled iron and steel, and (3) rails, are the same, since the shipping conditions for all three are the same. The old rates were diverse, their correlation being as follows:

	Kilometers				
	50	75	150	350	1,500
Crude iron and steel	100	100	100	100	100
Rails	136	155	178	180	137
Rolled iron and steel	160	183	211	213	160

The new equal rates were set in spite of the fact that the difference in the products' prices was in some cases more than 100 percent. Formerly, there was a considerable reduction in rates for long distances which did not fully correspond to the operating cost difference. This reduction has now been eliminated.

The price structure in transportation is unique and more complicated than that of other branches of industry, but it is subject to the common laws of development of socialist economics.

The shipping of each of the numerous kinds of freight represents a special type of production. Shipping of freight of the same kind for various distances also represents distinct types of production. Therefore, it is perfectly natural that, in the correlation between the cost of railroad production as a whole and the total cost of shipping, the rates and the cost of individual types of shipping cannot coincide.

Railway transport differs from other branches in that the individual types of shipping representing individual types of production are not accomplished by separate, isolated enterprises, as in other branches of industry, but by one and the same industrial apparatus. Therefore, it is possible to speak about each of the separate types of production of the entire railroad system as a single enterprise, even though each railroad system emerges as an independent entity and self-supporting unit.

Whatever individual deviations of rates from cost there may be, the cost of shipping is the basis for the Soviet railroad rates as a whole. Today this is generally acknowledged among Soviet economists. Nevertheless, certain authors deviate from this position and proceed along other principles derived from bourgeois economics. Two of these authors are Professor M. Protod'yakonov and V. Lombart.

In Soviet economics, rates lose their exclusive character and represent only one of the varieties of planned prices.

One of the characteristics of railroad transport, determining the system of railroad rates, is the multiplicity of types of production. In passenger conveyance alone there are 14 different types of transportation (in hard-seated cars and in soft-seated cars, in passenger, fast and express trains, with a reserved seat and without a reserved seat, etc.), and in each of these types are 162 trip-distance zones. There is a total of 2,268 types of production in passenger traffic. At first glance, the distance of the trip seems to be only a quantity of transport production, but actually there is also variety in the quality of conveyance. For example, the trip from Moscow to Bryansk, 383 kilometers, has a completely different cost for its value than the trip from Moscow to Ashkhabad, 4,634 kilometers.

There are even more varied types of transport in freight traffic. Even after the classification of hundreds of different kinds of freight, the 1939 - 1948 nomenclature distinguished 7 categories of freight each of whose transporting had to be split up by groups of commodities and by zones (according

to the new flow sheets there are 125 of such zones), with special rates for each zone. There is a minimum of approximately 9,000 different kinds of freight transport. In addition to this, hauling is differentiated by type of tare, handling, degree of necessary protection from damage, and type of parcel.

The cost of shipping enters into and becomes a very large part of the cost of production of every branch of industry. Conveyance of pig iron to its place of consumption amounts to 15 percent of its cost to the consumer. However, when the expenses of shipping ore, coal, and other materials required in pig-iron smelting are added, the proportion of transport expenses in the production cost of pig iron reaches 40 percent.

Consequently, the deviation of rates from cost of shipping for certain freight can sharply increase the production costs of products for which transport outlays are great.

Therefore, we must reject the principle of paying capacity. The cost of the product being shipped cannot be disregarded. The correlation between shipping charge and cost of the product being shipped serves as a guiding line for the known ranges of rate deviation from shipping cost. Extreme deviations would disrupt the systematic application of the principle of cost in all branches of industry. Therefore, conscious use of the principle of cost and the mechanism of price deviation from the cost demands calculation of the shipping cost and its role as a factor of price structure in the cost of the products being shipped.

This calculation of the correlation between shipping cost and cost of the freight does not denote use of the principle of paying capacity, since rates are not assessed on freight with maximum profit for transport, but, on the contrary, with limitation of the possible deviations of rates.

The role of rates as instruments of the economic policy of the Soviet State can be reduced to three functions: (1) instruments of profit redistribution; (2) instruments effecting production distribution; and (3) instruments effecting change in the price level of products.

Rates as instruments of profit redistribution are important only in excepticnal cases. An example of this is reduced rates for season passes in suburban passenger transportation. The average rate for such a ticket is one twelfth of the average rate in local transportation. The main reason for this is the necessity for reducing transportation expenses for workers living out of the city. Workers living 20 - 30 kilometers from the enterprises would have to spend 30 - 50 percent of their budget on daily fare if the Soviet State had not fixed rates lower than the cost.

Rates as instruments for stimulating distribution of productive resources are very important. Their role is to reduce long-distance shipping, eliminate irrational shipping, develop the integrated economy of the republic, krays, and oblasts, and develop local shipping. However, in effecting this rationalization there is no need to depart from the principle of equalizing rates and shipping costs. For example, the difference in charge for transport of a ton of coal 100 kilometers and 1,500 kilometers is 20 rubles, 64 kopecks. With the elimination of reduced rates, tripling of short-distance rates, and doubling of long-distance rates, this same difference in the advantage of local coal would be 38 rubles, 44 kopecks. Thus, cancellation of reduced rates and approximation of rates to shipping cost does not contradict the principle of stimulating development of local industry.

Cancellation of reduced rates for short-distance shipping has another advantage. It promotes development of local motor transport for the shortest distances (10 - 20 kilometers). In October 1946 and July 1947, motor transport hauled 500,000 tons per month for distances up to 10 kilometers, and in those same months hauled 1,100,000 - 1,300,000 tons for distances of 10 - 20 kilometers. Conveyance by motor transport is economically and completely rational.

Certain reduced freight rates are being retained for development and strengthening of new enterprises, for example, reduced rate for coal from a newly opened field.

Rates as a factor in the price structure play an important role for many types of freight. The Soviet State is carrying out a policy of methodical reduction of prices; therefore, it fixes rates lower than cost for those products for which increased rates would cause a sharp expense and price increase in the branches using the products as materials.

A calculation of shipping costs shows that the cost changes with the distance of the run in the following way (the cost per kilometer-ton on a run of 200 kilometers equals 100:

Run Distance (km)	Shipping Cost (%)
50	203
100	133
200	100
300	88
500	76
1,000	68
1,500	62
2,000	61
3,000	59
5,000	58
7,000	57

Of course, these dynamics vary for different types of freight, transport, and different years. Nevertheless, this table is sufficiently representative to show the conformity between rates and shipping cost.

Rates have been fixed even higher than cost for excessively long distances in the interests of stimulating local production and exerting economic pressure on unnecessary long-distance shipping. Rate on a run of 200 kilometers equals 100:

Distance (km)	Iron and Steel (crude)			Iron Ore		
	1931	1939	1949	1931	1939	1949
50	100	156	333	100	143	256
100	100	120	183	100	112	152
200	100	100	100	100	100	100
300	96	92	78	96	96	82
500	87	89	61	89	90	67
1,000	72	83	54	84	96	71
1,500	62	81	52	83	106	75
2,000	57	92	56	82	110	85

The comparison of the rate system of 1931, 1939, and 1949 shows the approximation of rates to cost and the rejection of reduced rates in comparison with cost for long distances.

The correlation between railroad and water rates is very important. For rational utilization of all types of transport the socialist state links the system of railroad and water rates to stimulate shipping of the river fleet.

Shipping of many types of freight is cheaper by river than by railroad, but the configuration of railroad and water routes and other circumstances in the standard system of rates, in some cases places the railroads in a more favorable position. Therefore, sometimes higher railroad rates are necessary during the navigation season so that river shipping does not cost shippers more than railroad shipping.

There was an important special rate No 1 for shipping Kuznetsk coal to Magnitogorsk and other stations of the South Ural Railroad System. According to this, the rate per kilometer-ton was considerably lower than the average coal shipping cost. However, cost of shipping on the Oms. Railroad, on which Kuznetsk coal is shipped for a large part of its run, was also considerably lower than the average system cost. Therefore, the difference between the special rate on Kuznetsk coal and the shipping cost was not extremely great. This difference will be further reduced by the rates being put into effect in 1949. The object of such a decrease in advantages of Ural and Kuznetsk shipping is to stimulate utilization of Gornaya Shoraya ore at the Kuznetsk Metallurgical Plant, local Ural coking coal and Karaganda coal at the Magnitogorsk Plant.

Many Soviet economists prefer to speak about the net cost instead of the cost of shipping as the basis of rates. On the whole, a profitable rate must correspond to the cost and not the net cost, or in other words it must include a certain amount of accumulation.

In connection with this is the fact that cost constantly changes. The cost of production is not that of the past period, but the cost under new, changed conditions. The cost of production actually means the cost of reproduction. In transport, as in Soviet industry, the cost of reproduction is very important in fixing rates for some years to come.

Productivity of labor in railway transport will have become more than 1.5 times greater during the period 1946-1950, and the cost per kilometer-ton will have been reduced 18 percent. Under these conditions rates cannot be fixed in complete accordance with the actual 1948 cost. The prospective reduction of transport expenses or, that is, the cost of reproduction must be taken into consideration. Therefore, all rates can be fixed on a level with the present net cost or even a little lower. In 2 - 3 years, the further net cost reduction will have made up the difference between rates and net cost, and will make possible the necessary accumulation. Rates based on the cost of reproduction stimulate the drive for shipping cost reduction.

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